Optimal FUND MANAGEMENT

Monthly Report to Unitholders of the
Optimal Japan Trust

March 8th, 2002

DATE	NAV	Monthly % Return*
28/02/02	A$10.66	1.47

- After all fees
- NAV is ex-distribution of A$ 0.8989 (for Yr to 6/01) and A$1.4158 (for Yr to 6/00)

Monthly return composition

Topix %	OJT longs %	OJT shorts %
4.33	5.20	-8.06

Trailing 3 months NAV

12/01	1/02	2/02
A$10.39	A$10.51	A$10.66

What a change a month makes. We started 2002 with an index decline of 5.85% in January and every commentator from Wall Street to Wagga Wagga opining on the overriding logic of the apocalypse awaiting Japan. Not only would equities fall but the Japanese government bond market was ready to blow up and the Yen was heading inexorably to 180/US$. Not surprisingly, no one rang a bell to signal that in fact all three were buys but from early February we saw "bargain-hunting buyers overwhelming profit-taking sellers" and everyone is wondering why. We do not regard interpreting economic data as our forte and in any case recently released data has been highly equivocal so we would rather consider some of the bottom up issues that strike us as revealing.

Shorts harder to identify - although we were not prescient enough to cut our short exposure dramatically at the start of February, we had been struggling to find "easy" short targets since the start of the year. Many of the tech stocks had already fallen out of favour and were no longer wildly overpriced and we have long felt that shorting city banks was akin to rolling the dice as their shares tend to move (sharply) on policy announcements. Being reluctant to reduce our shorts in total, we therefore began to reduce the beta on the short side as an alternative. We were told that other fund managers were also finding it hard to spot sell candidates so it made us wonder how much further there could be for prices to fall.

Foreigners underweight against index – Again, based on broker feedback and surveys, foreign fund managers were heavily underweight versus their global benchmarks. As mentioned above, they were also scornful of the Yen. To borrow from an excellent daily commentary, "Bloomberg quotes a forex dealer as saying " the entire world is selling Yen/US$". Which prompts the question…. Who is it selling to? The

Level 36, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Tel: 61-2-9229-1863
Fax: 61-2-9223-2920

5F Izumikan Kioicho
4-3 Kioicho, Chiyoda-ku
Tokyo 102-0094
Tel: 81-3-3238-1671
Fax: 81-3-3238-1687

Martians". The biggest holders of Yen are of course the Japanese themselves so to become even more bearish of the Yen, one has to assume they will sell too. I don't rule that out – but maybe not for now.

Share buybacks increasing – Ninety companies announced share buybacks in February alone. We own four of these. They range from tiny Daito Electron with a market cap of Y9bn buying back 5% of shares out to Kao Corp with market cap of Y1.6tn and buying 2% of shares on issue. Japanese MBOs, LBOs and hostile takeovers might be more wishful thinking than imminent reality (although we think not) but having 90 companies in one month showing some interest in their share price is a welcome change nevertheless.

On the policy front we had the government's long-awaited package of anti-deflation policies released on February 27th. It included initiatives such as "the government will promote concrete and effective measures boldly and flexibly" amongst the many steps that would be taken. Not surprisingly, the professionally bearish market players were underwhelmed and we would admit some disappointment with the lack of specifics. However, there were steps in the right direction - for example the government guarantee of Y2 trillion in both 2001 and 2002 for the Banks' Shareholding Acceptance Corp to absorb stock sold by the banks. Even the tighter regulations on short-selling cannot be described as being any more interventionist than that of the SEC and stock exchanges in the United States as they have merely closed the loophole whereby one could sell short on down-ticks. It is too early to tell if we will see more attempts to curtail selling (whether short or "genuine") but any mechanism to move stocks from the balance sheets of the forced sellers (banks and insurers) into vehicles which can act as halfway houses (the ETFs that the larger Japanese brokers are promoting) is a preferable to inertia.

We are unable to say whether we are seeing the start of a true long-term recovery from the bear market but believe that it is more probable than not. At the very least, we do subscribe to the view that Japan is a beneficiary of the current pick up in global economic activity and that equities will experience a cyclical rally in the months ahead. Our net exposure is higher now than it has been for some months and we are looking at opportunities to increase it further.

Positive contributors	(long)	Daito Electron; JAFCO; Mitsui Fudosan; Tokyu Land
	(short)	Acom; NEC
Negative contributors	(long)	Japan Foods; Benesse; Kawasaki Shipping; Sankyo Frontier
	(short)	Mitsubishi Motor; Fujitsu; Keihin Railway; Asahi Glass

Major Positions

Long

Tokyu Land; Canon; Central Glass; Toyota; Japan Energy

Short

Takefuji; Tokyo Seimitsu; Mazda; Mitsubishi Motors; Ajinomoto

Level 36, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Tel: 61-2-9229-1863
Fax: 61-2-9223-2920

5F Izumikan Kioicho
4-3 Kioicho, Chiyoda-ku
Tokyo 102-0094
Tel: 81-3-3238-1671
Fax: 81-3-3238-1687

Optimal FUND MANAGEMENT

Returns Snapshot	
Period	**% (AUD)**
Year to Date Return:	1.47
Return since inception: ***Inception 14 Oct, 1999**	29.76

Portfolio Composition at Month End			
% of NAV in:	Dec 2001	Jan 2002	Feb 2002
Long Stock Position	71.24	68.64	63.37
Short Stock Position	(35.57)	(34.85)	(27.83)
Index Futures			
Equity Derivatives	2.86	2.75	2.80
Net Exposure	38.53	36.54	38.34

Historical Returns

Below we provide a table detailing the monthly returns of the Fund since its inception in December 1999.

Optimal Japan Trust Net Monthly Returns in AUD													
Year	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**YTD**
1999												* 0.58	0.58
2000	-0.32	12.76	8.99	-1.53	2.45	11.82	-9.05	4.02	-0.37	0.90	-0.18	-3.86	26.63
2001	-2.34	3.13	1.36	8.46	-2.14	3.96	-2.88	1.49	-3.58	1.77	-3.89	-5.46	-0.25
2002	1.10	1.47											2.58

- Trust Inception 20 December, 1999

Level 36, The Chifley Tower
2 Chifley Square
Sydney NSW 2000
Tel: 61-2-9229-1863
Fax: 61-2-9223-2920

5F Izumikan Kioicho
4-3 Kioicho, Chiyoda-ku
Tokyo 102-0094
Tel: 81-3-3238-1671
Fax: 81-3-3238-1687